



# The state of the World Economy and the EU economic prospects

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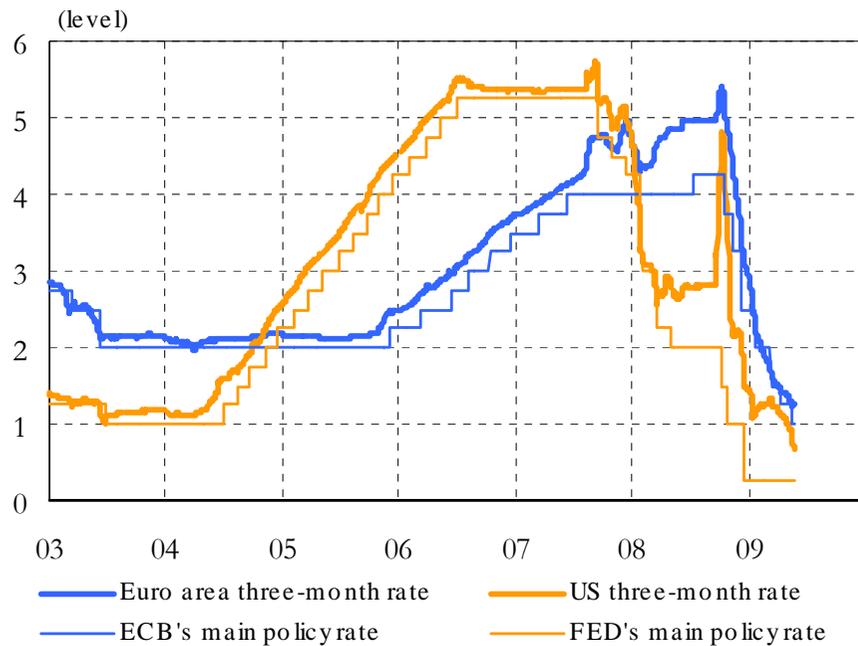
Vienna, 23 June 2009



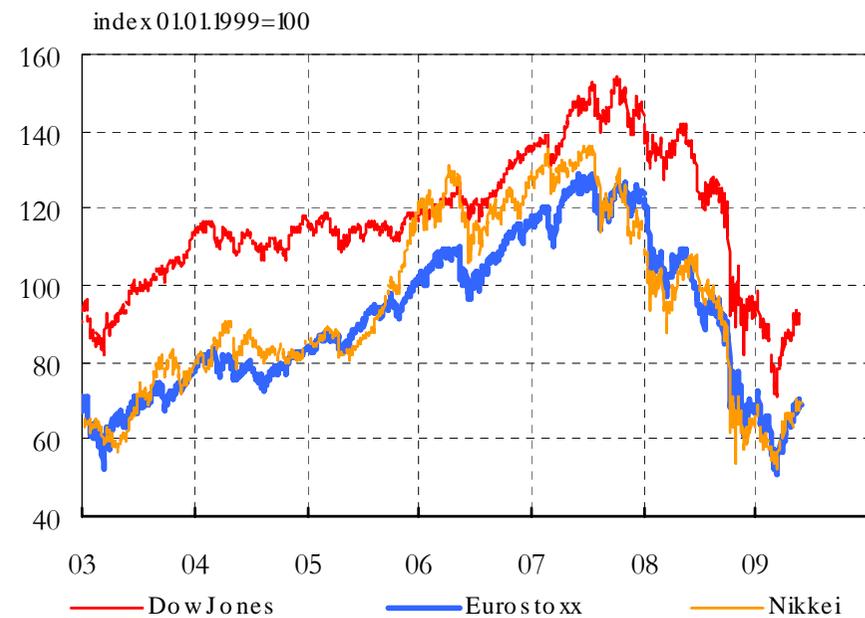
# Financial crisis: markets' situation improving

Unprecedented support to financial sector helps stabilise, but vulnerabilities remain

### Short-term interest rates in the US and the euro area



### Stock markets, world wide

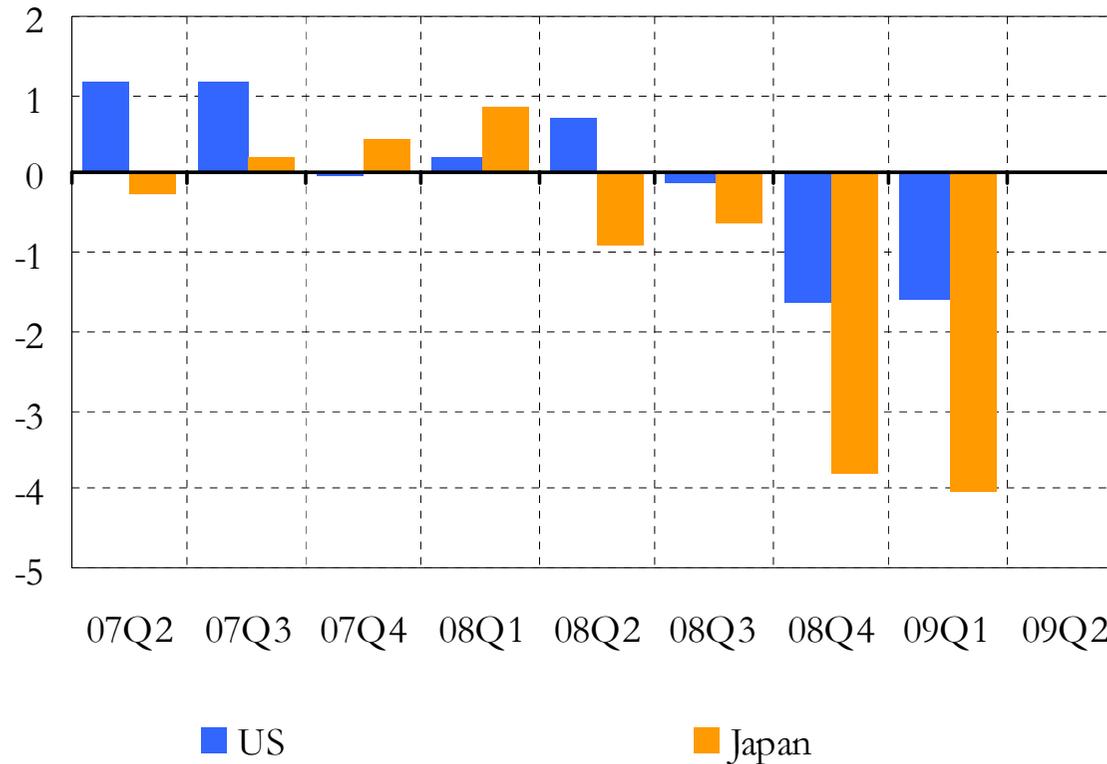




# Global economy in recession, lead by advanced economies

Quarterly real GDP growth in the US and Japan (% , quarter-on-quarter)

(q-o-q % change, s a)



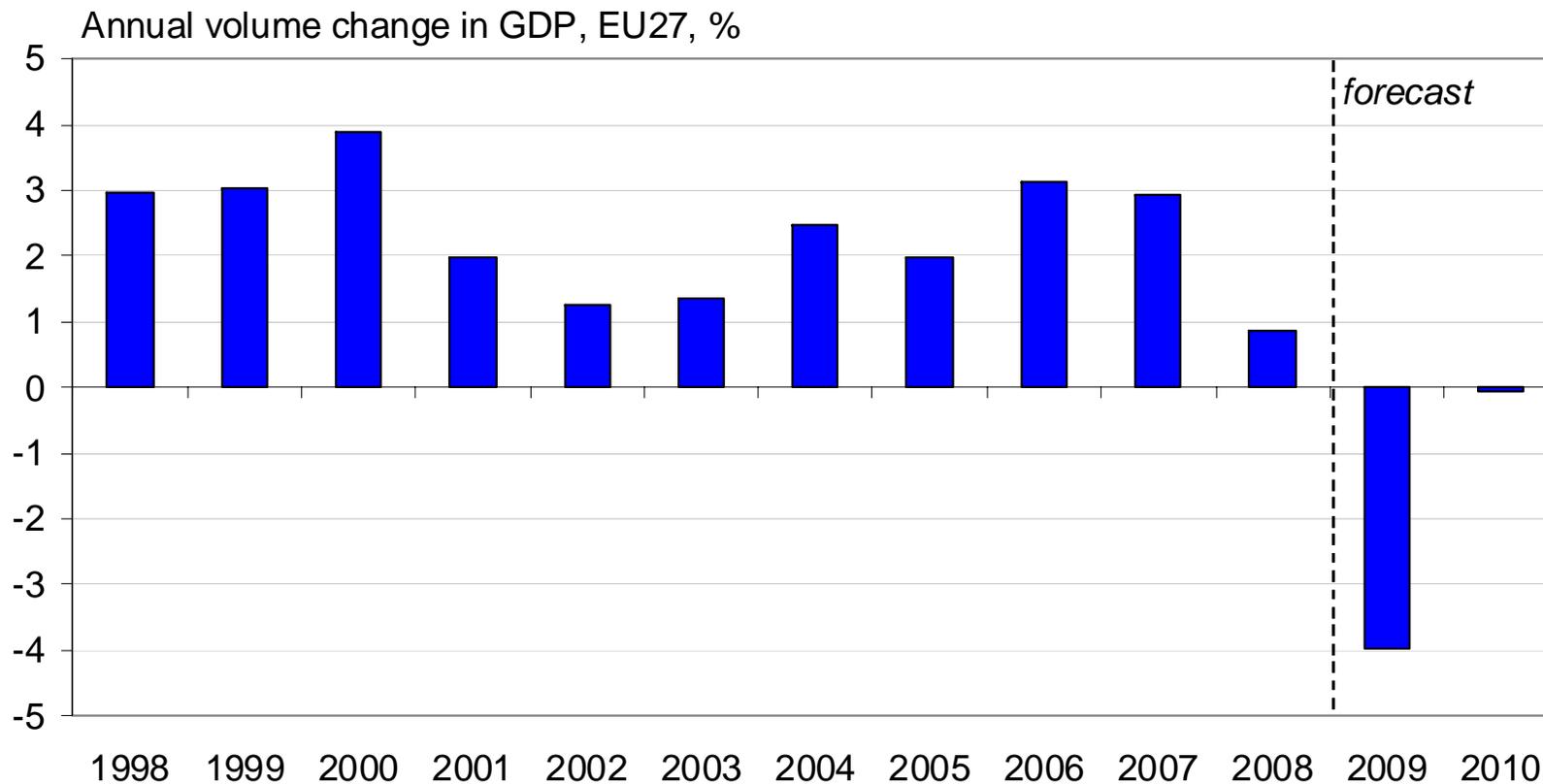


## Global economy in recession

	2007	2008		2009		2010	
(percentage change on preceding year)		Spring	Jan-09	Spring	Jan-09	Spring	Jan-09
World GDP growth	5.1	3.1	3.3	-1.4	1/2	1.9	2 3/4
<i>GDP growth in:</i>							
- the US	2.0	1.1	1.2	-2.9	-1.6	0.9	1.7
- Japan	2.4	-0.7	-0.1	-5.3	-2.4	0.1	-0.2
- China	13.0	9.0	9.7	6.1	6 3/4	7.8	8
- EU	2.9	0.9	1.0	-4.0	-1.8	-0.1	0.5



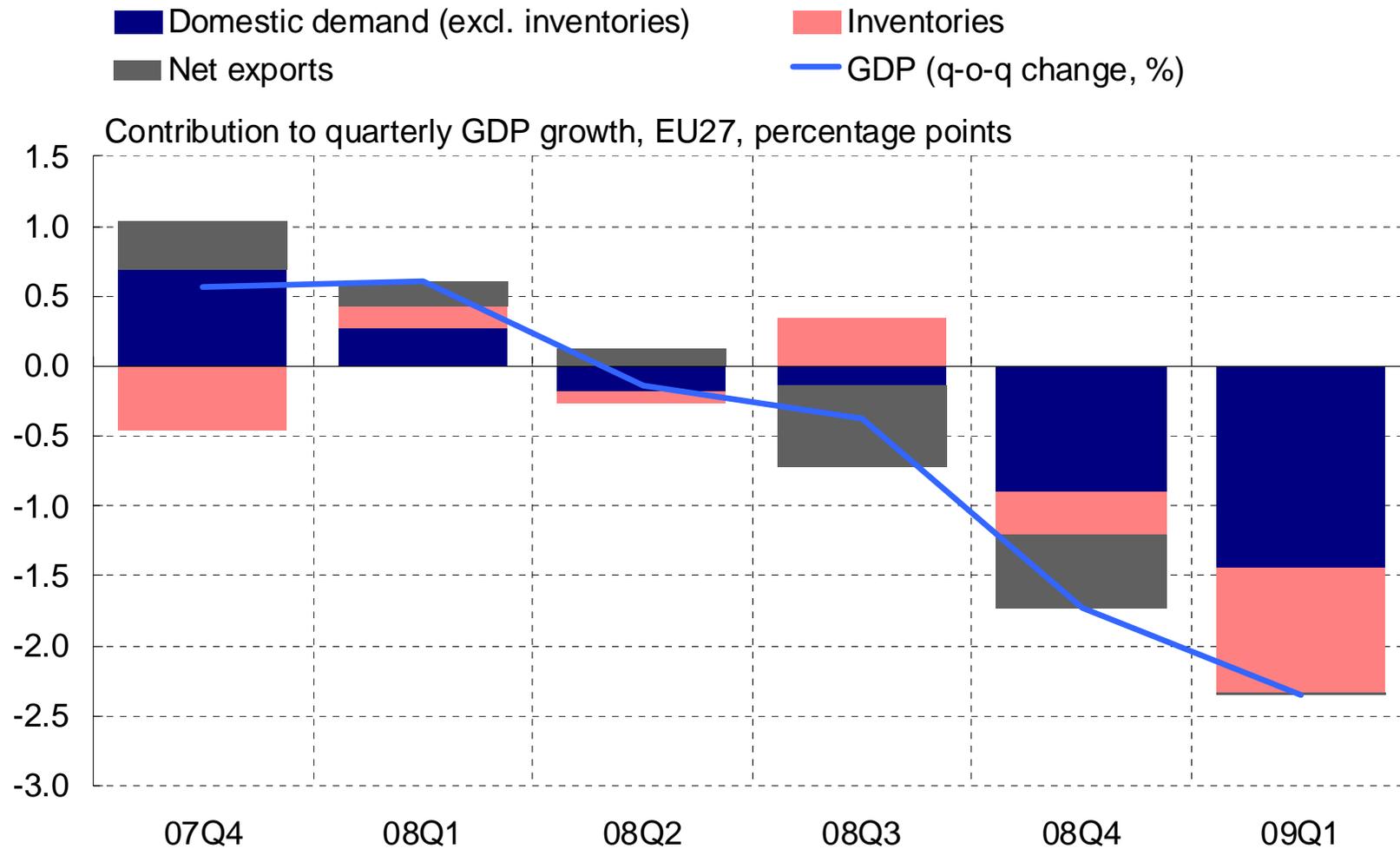
# Spring forecast: EU GDP to fall 4% this year



Sources: Eurostat and Commission services.



## 2009Q1: Broad-based weakness

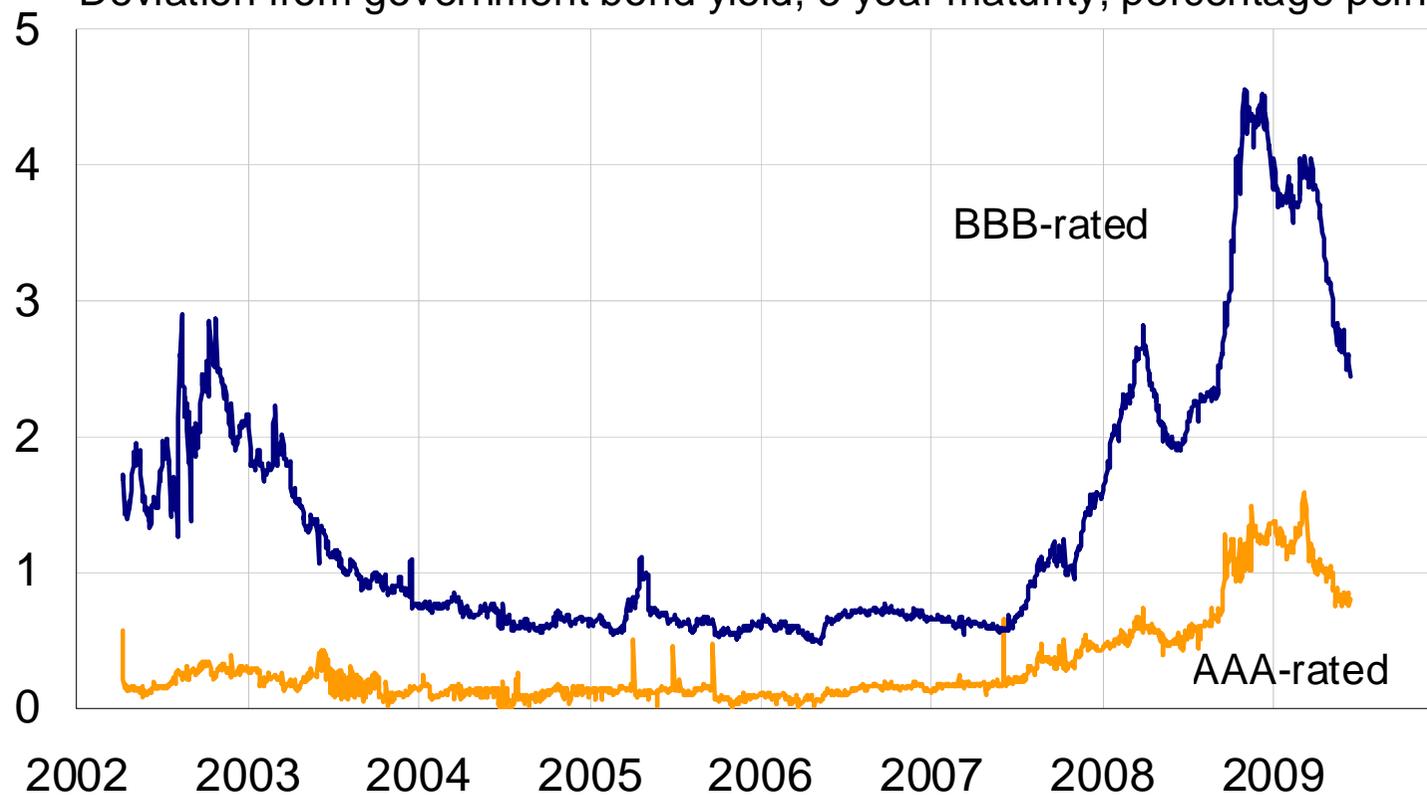


Source: Eurostat.

## Financial markets: Some improvement recently

### Corporate bond spreads, euro area

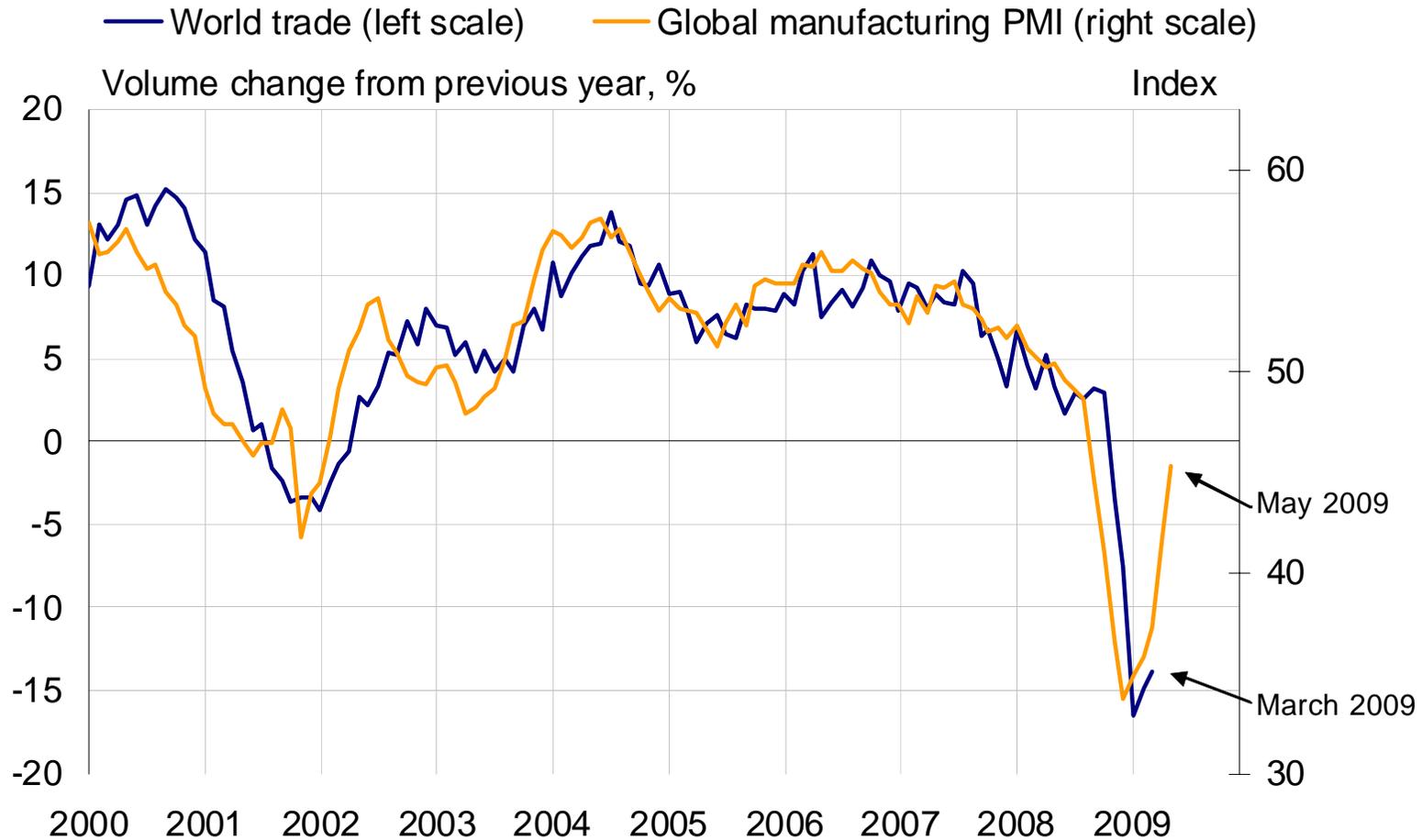
Deviation from government bond yield, 5 year maturity, percentage points



Source: Ecwin (Reuters indices). Last observation: 11 June 2009.



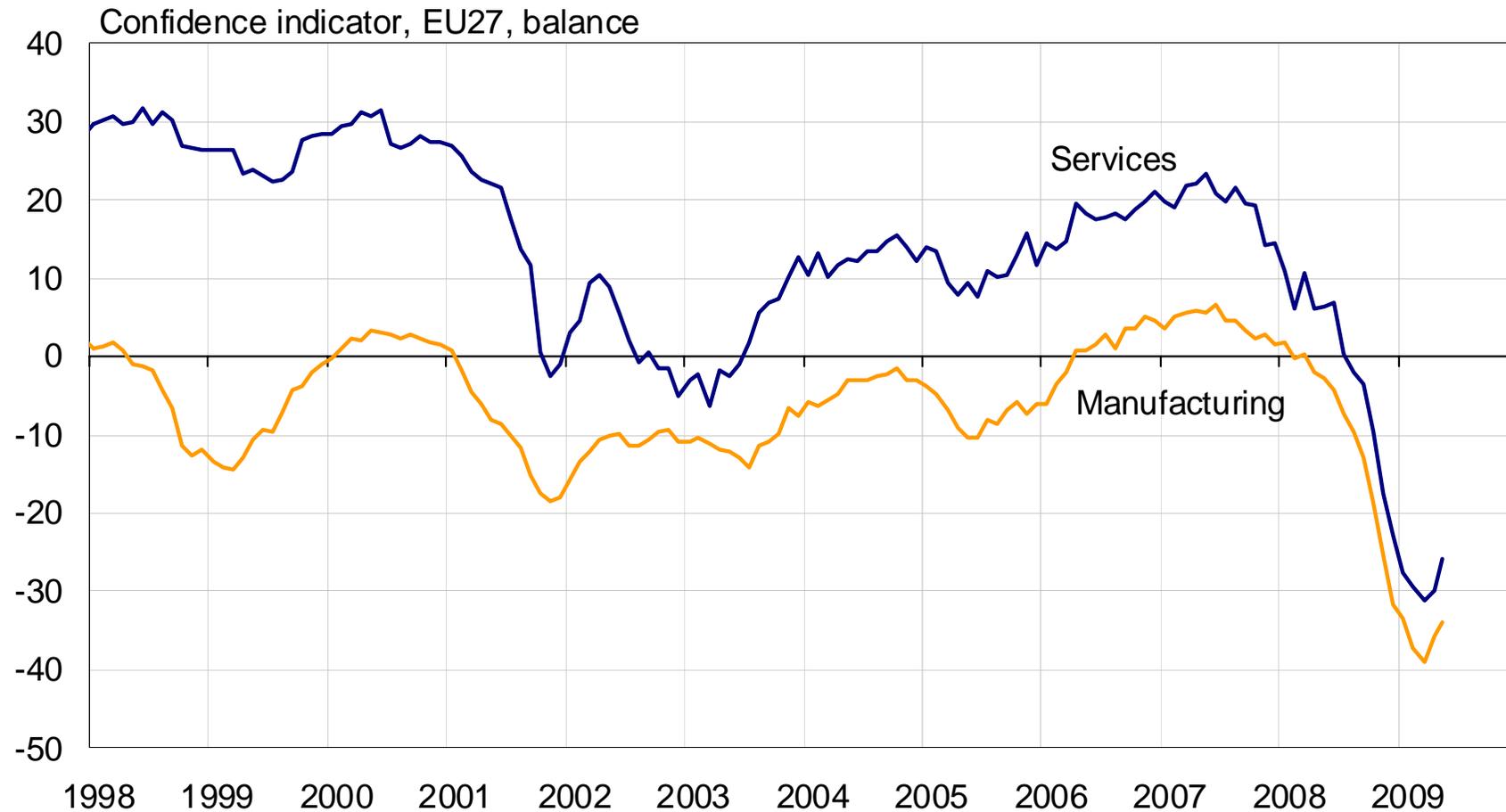
# Signs of stabilisation in global economy



Sources: CPB, Institute for Supply Management and Ecwin.



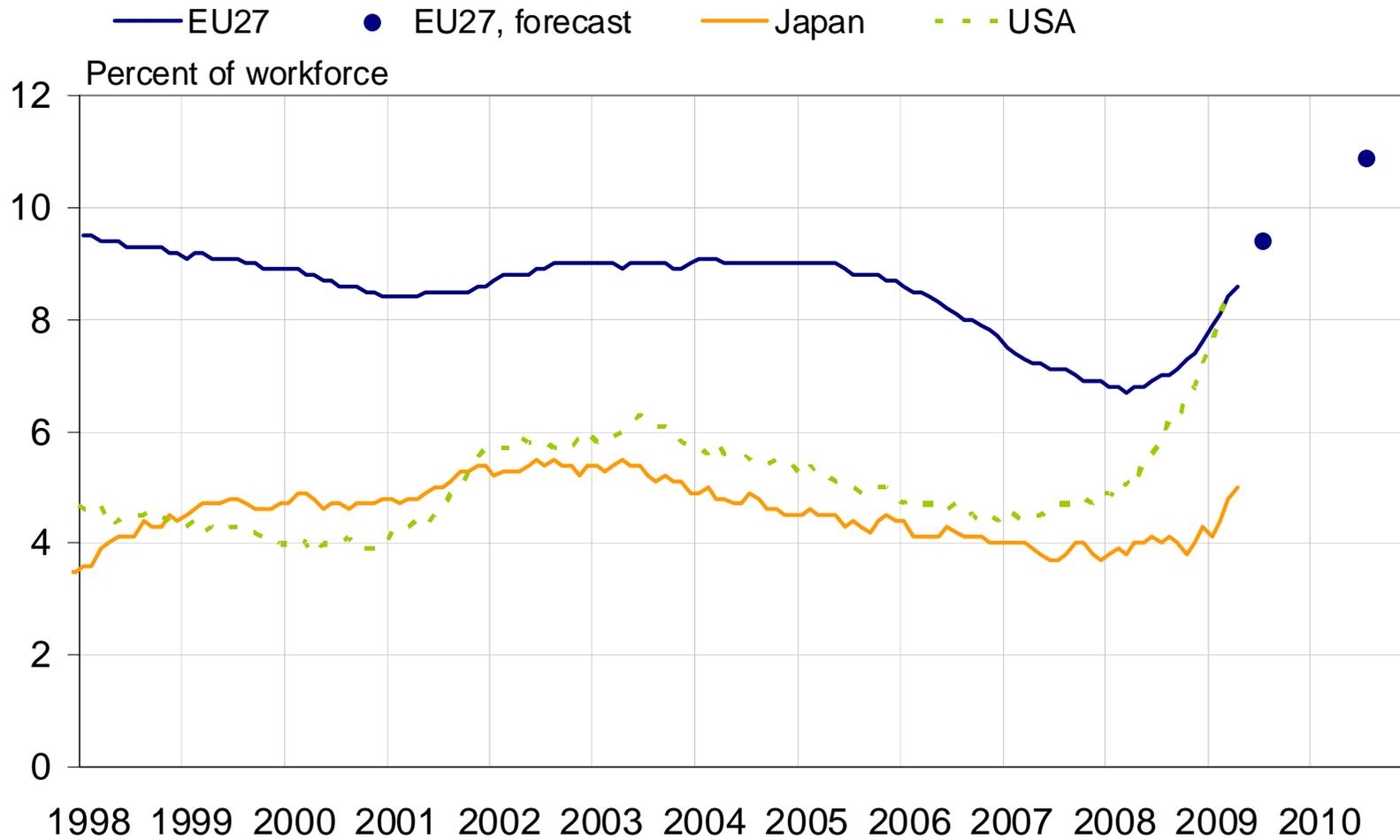
## Commission's business surveys up in April-May



Source: Commission services. Last observations: May 2009.



# Unemployment rate rising



Sources: Ecwin and Commission services.



## Public finances deteriorating

<i>Percent of GDP, EU27</i>	2007	2008f	2009f	2010f
Net lending of general government	-0.8	-2.3	-6.0	-7.3
Gross debt of general government	58.7	61.5	72.6	79.4

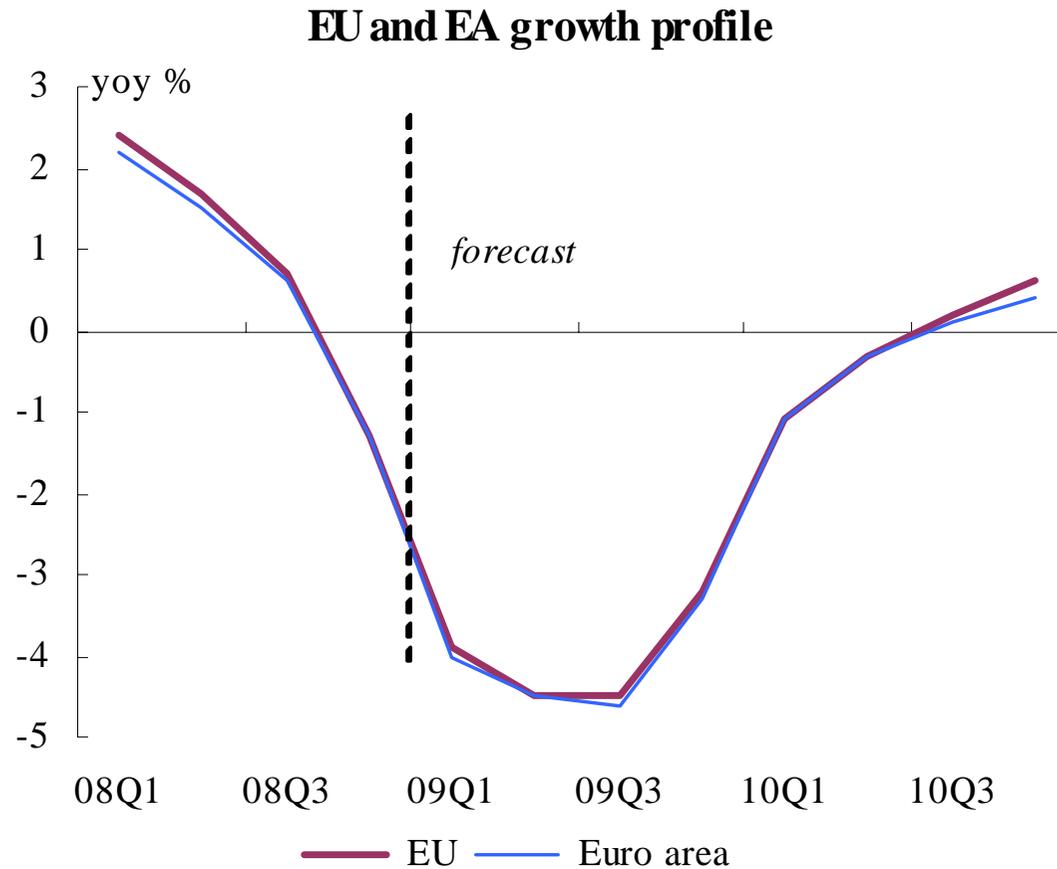
Sources: Eurostat and Commission services.



# Euro-area GDP could contract by 4% in 2009



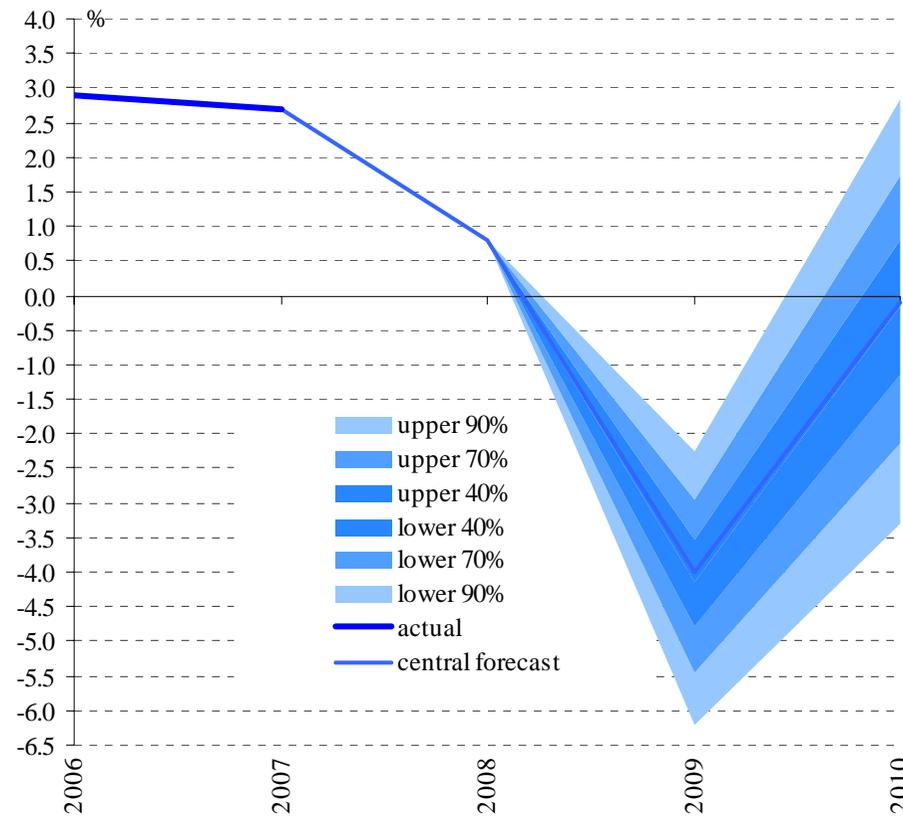
(year-on-year real GDP growth, %)





# Risks remain somewhat tilted to the downside

Uncertainty linked to the balance of risks, euro-area GDP





## Considerable uncertainties

	Downside risks	Upside risks
External	<p>Negative feedback loop from deteriorating real economy to financial sector</p> <p>Protectionism</p> <p>Disruptive exchange-rate developments</p>	<p>Stronger impact on confidence of recovery packages</p> <p>Faster adjustment in global inventory cycle, US housing sector, recovery in Emerging Markets (incl. China)</p> <p>Commodity prices weakening further</p>
Domestic	<p>Negative feedback loop from deteriorating real economy to financial sector</p> <p>External/domestic vulnerabilities in some MS exacerbated by current crisis</p>	<p>Stronger impact on confidence of recovery packages</p> <p>More favourable consumer response to lower inflation</p>



## Europe's policy response to the crisis

- Around 5% of EU GDP of overall support over 2009-10: Recovery plans (1.8%) plus automatic stabilisers (2.7%) plus extra budgetary measures (0.5%)
- Monetary policy easing
- Bank rescue plans
- Employment and social measures



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Thank you